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FOX FARMING IN PRINCE EDWARD ISLAND: A CHAPTER IN THE HISTORY OF SPECULATION

SUMMARY

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I

AMONG the most recent efforts of man to bring the animal world under subjection for the satisfaction of his wants is the breeding of fur-bearing animals in captivity. Until four or five years ago few even knew such experiments were being made. Today the production of the prince of these fur-bearers — the silver fox — is an organized business, carried on largely by corporations with a capitalization of millions of dollars, and with thousands of shareholders scattered over Canada and the United States. This spectacular development, with its accompanying inflation of values, came to a sudden climax with the financial stringency incident to the breaking out of the war in Europe. Was this the bursting of another economic bubble, or merely an unfortunate event in the development of an unexplored field, counterparts of which are to be found in the initial history of many industries ?

“ This industry — fur farming — is so young that it is easy to locate its principal pioneers, who follow in

about this order: Robert T. Oulton, Charles Dalton, T. L. Burrowman, Johan Beetz, Captain James Gordon, Robert Tuplin, Silas Rayner, B. I. Rayner, Harry Lewis, John Champion, Holt Renfrew & Co., Ltd., Dr. Robertson, J. Perry.”¹ To Messrs Oulton and Dalton, two farmer-trappers of the little Canadian province of Prince Edward Island, belongs the credit for first successfully breeding foxes in captivity; their experiments antedate the work of the others mentioned some ten years. Doubtless, too, many lessons were learned from the failure of earlier attempts to breed foxes in captivity such as were made by another Islander, William Haywood, particularly with reference to the difficulties incident to the breeding season. Finally in 1887 Oulton and Dalton decided to attempt the task, altho a partnership agreement was not arranged until 1894 or 1895. After the partnership was consummated a ranch was built on Mr. Oulton’s farm on Cherry Island, and stocked with two pairs of silver foxes under the care of Mr. Oulton. This was the first successful fox ranch.

Meanwhile others were becoming interested; Mr. Burrowman was the first to succeed in Ontario, Mr. Beetz and the Holt Renfrew Co. in Quebec, Dr. Robertson in Maine. Their efforts, which resulted in some of the finest strains of foxes extant, seem to have been carried on entirely independent of the Prince Edward Island attempts. Other pioneers were neighbors of Oulton and Dalton who succeeded in securing from them either a pair of foxes for foundation stock or a single animal for cross-breeding with a fox obtained elsewhere. The efforts of these fortunate few, operating, it is said, under a “gentleman’s agreement,” succeeded in maintaining close control over the stock of silver foxes available until about 1910. Still others,

¹ I quote from “The Ranch Bred Fox.”

however, were experimenting with red and cross foxes, so as to make themselves proficient ranchmen, in anticipation of the time when they too would be able to secure the coveted black beauties.

Many costly lessons had to be learned before fox ranching was placed on a permanent basis. Efforts to prevent escape, either by digging or climbing, resulted in the gradual evolution of the modern wire enclosures. Discovery of the foxes' monogamous habits led to the construction of separate apartments within these enclosures for each fox family. The nervous, excitable temperament of the creatures, frequently resulting in the female destroying her young if disturbed by any unusual occurrence or distracting noise, makes necessary the exclusion of visitors from January to July, and the exercise of the greatest caution by the regular attendants. The intestinal parasites to which the young are subject, digestive diseases, and other disorders which attack the fox, had to be discovered by experience. Here, as with human beings, prevention has been found better than cure. Large pens so as to give greater facilities for exercise, wholesome and agreeable foods, and a well drained ranch, cleanly and hygienic in all its appointments — these are the conditions for prevention, and their presence the indication of an experienced, successful rancher.

One further circumstance which needs to be noted is the range of prices realized by the ranchers for the fox pelts sold in the London market from 1900 to 1914. An account of sales published in the 1914 report of the Charles Dalton Silver Black Fox Co., Limited, records an average price of \$778.78 for 203 pelts sold during this period. This list apparently includes most of the ranch-bred silver foxes sold. The average for 25 pelts marketed in March, 1910, was \$1,339.48. One pelt at

this sale fetched \$2,627.96 and several others sold for over \$2,000. The 1911 average for 39 pelts was about \$900. Altho attempts were made to keep secret the prices realized, until the practice of selling foxes for breeders became general, the evident improvement in the financial condition of the few pioneers could not be concealed from their neighbors, who were jealously watching every development. Their interest was constantly being stimulated, and the excitement resulting from the publication of the 1910-1911 prices can be imagined.

Thus before 1910 fox farming had passed the initial stage of experimentation, and had become a profitable branch of animal breeding on the part of some half dozen pioneers in the industry. For some ten years small lots of silver fox pelts had been regularly disposed of by them on the London market. The prices realized were far in excess of what had been anticipated, and awakened in the minds of the hardy farmers dreams of wealth such as could never have been realized from their ordinary vocation. Furthermore, many others had been perfecting themselves in the details of ranch-craft by experimenting with foxes of lesser value, and were eagerly awaiting an opportunity to enter the new field of endeavor. Conditions were ripe for a rapid expansion of interest, which was destined to spread far beyond the neighborhood of these remote Island farmers.

II

The preceding summary statement affords the background necessary for a proper appreciation of the remarkable speculative development which has characterized the industry since 1910, the date when selling foxes as breeders became general. The limited supply,

so closely controlled, made easy the rapid determination of a standard price for pups. The returns actually realized for pelts — about \$1,500 to \$2,000 for the best grades — provided an easily calculated minimum supply price, and the price so calculated was that at which pups were at first offered. The demand by the experienced ranchers and their friends was sufficient to absorb the entire supply at such a price. When the sale of breeders first began, therefore, the price of fox pups was virtually the value of their fur, and the demanders, not the suppliers, were the importunate parties. In view of later developments this fact should be carefully noted.

But prices did not long remain at the level of pelt valuation. Mr. J. W. Jones, in his excellent monograph prepared for the Canadian Conservation Commission on Fur Farming in Canada, remarks that "the price of a pair of five months old silver fox pups of the best Prince Edward Island stock has risen as follows:

September, 1909	\$3,000
" 1910.....	4,000
" 1911.....	6,000
" 1912.....	10,000
" 1913.....	16,000

The wide and rapid departure from pelt prices has the appearance of highly inflated values, and suggests the intervention of the skilled manipulator.

Interest in fox farming, as has been said, spread throughout the entire province, and indeed far beyond. But an evident obstacle to general participation in the industry was the price at which silver foxes were sold. Prince Edward Island is almost entirely rural; its people are intelligent, thrifty, and prosperous. The per capita savings bank deposits are exceeded by few similar communities anywhere. But even in such a community

few would be able to raise conveniently the ready cash necessary to secure even one pair of pups, and this became increasingly difficult as prices advanced. Hence from the first some form of business association was practically a necessary adjunct of fox farming. For two years partnerships were the means by which the smaller investors secured participation in the industry. But, as might have been anticipated, the well-known limitations to successful partnerships, and the need for ever increasing amounts of capital, soon suggested the advantages of the corporate form of organization.

The first corporation organized to engage in the fox business is said to have been the Silver Fox Ranching Company, incorporated in Massachusetts in 1911, to do business in Prince Edward Island. The first Island Company recorded as a corporation was Black Foxes, Limited, having a capitalization of \$20,000, organized in 1912. In all, ten companies were incorporated in that year, with a capitalization aggregating \$335,000. The very moderate capitalization is significant. It indicates that these first corporations were associations of men who desired to engage in fox breeding, not in selling securities; the promoter had not yet appeared. But the conditions were so inviting that the appearance of that functionary could not be long delayed. A limited supply of foxes, a constantly increasing number of those anxious to invest, a prosperous constituency who might become participants if properly appealed to, fat profits realized and rosy prospects for the future — all the conditions pointed the way to wealth. Secure control of a portion of the supply, capitalize the foxes at a figure materially in excess of their cost, make the proper appeal to the public, and fortunes were at one's command. This is exactly what began in the fall of 1912. Options, secured by a 10 per cent deposit, were

obtained on pups for delivery September 1, 1913, at prices, for best stock, ranging from \$10,000 to \$13,000 per pair. Companies were then organized capitalizing these foxes at from \$15,000 to \$30,000 per pair, a margin which insured a handsome profit to those promoters who were successful in marketing their securities before deliveries were called for. Practically the entire available supply of silver foxes in 1912-1913 was thus dealt with. But the spring of 1913 proved a disappointing one to the breeders, several litters of pups being lost. Many therefore were unable to fulfill their option requirements, with the result that prices rose sharply after May, reaching \$15,000 to \$17,000 per pair by September. Some notion of how widespread these highly speculative operations became may be gathered from the Provincial Secretary's Report of May, 1914, which records 196 incorporated companies engaged in fox ranching, with a total capitalization of \$24,305,700. Much the larger part of this stock was owned by the Islanders themselves. Considerable amounts were sold, however, in the other provinces of Canada, and in the New England States.

Next year (1913-14) these activities continued. Options were taken at about the same price as in the previous year, companies were organized capitalizing the foxes on about the same basis, and the marketing of securities proceeded apace with every prospect for another prosperous year for the promoters. But alas! this year it was they who were to suffer from the vagaries of the fickle goddess. When the war clouds broke, millions of dollars of securities were still in their hands, now practically unsaleable. With deliveries about due, those promoters who had not completed their organization were in serious difficulties. "Some purchasers of options were given an extension of time in

which to make their payments; in other cases the option money was applied toward payment for a less number of foxes than had been stipulated, and in other cases options were abandoned with forfeit of the money paid thereon."¹ Some companies never completed their organization. Others issued a limited amount of stock corresponding to the number of pups secured. For these reasons the actual amount of securities marketed was considerably less than was indicated in the report of the Provincial Secretary for May, 1915, according to which there were 275 corporations, capitalized at \$35,567,290, holding a provincial charter, and nine companies capitalized at \$4,240,000, incorporated elsewhere, engaged in the fox business within the province. In addition, fox exchanges, dealing in options on foxes and in shares of corporations, were organized in the larger towns of the province, and in several Canadian and American cities. Further indicative of how highly developed the speculative organization had become, was the appearance that year of a monthly journal, *The Silver Black Fox*, devoted to these operations.

The result of this interruption of speculative activity was a rapid decrease in demand for foxes, and a consequent sharp decline in prices, which fell off almost immediately to about \$5,000 per pair. The Fox Breeder's Association attempted to induce owners to retain all 1915 pups not saleable at this price, and thus prevent further decline, but their efforts were unsuccessful. By September, 1915, standard bred silver foxes could be purchased at from \$750 to \$1,500 per pair; just about the price paid for pelts in December. Since then prices have increased somewhat. "The last sales of live animals of good quality and pedigree have been

¹ Mr. McGready, in *The Silver Black Fox* for December, 1914.

made at more than double the price current in the month of September."¹

It is not to be inferred from what has been said that there was a general offering of foxes at the price just mentioned. Few were willing to sell, and few wanted to buy. The Islanders were just as loth to part with any quantity of their foxes at such a price as buyers were to purchase. Under pressure of necessity a few pairs were "sacrificed" to the highest bidders.

This pressure arose from the need of funds to pay current expenses. Owing to the practice, almost universal among the fox companies, of paying out all net income as dividends, no reserves were available to meet current requirements. To provide for these needs three methods were possible; to sell breeders at whatever they would bring, to place a few pelts on the market, or to levy on the shareholders. The first two methods were those generally employed. Resort to the method of assessment, the expedient followed by a few small companies, probably points to a desperate financial situation. It may be added, that in several of the more prosperous companies the directors personally advanced sufficient cash to tide over immediate requirements, expecting to be repaid from sales effected later.

The number of new companies organized since May, 1915, shows a decline corresponding to the limited dealing in foxes. Between May 15th and October 17th only five new corporations were formed and their aggregate authorized capital was only \$430,000. With the cessation of local operations a number of the biggest men in the business transferred the field of their activities to the United States and a number of companies were organized there in which these men were interested.

¹ *The Silver Black Fox*, January, 1916.

While Boston is the center of these operations, companies have been organized as far west as Minnesota, and as far south as Pennsylvania. These ventures, to the degree in which they are successful, present a profitable market for Prince Edward Island foxes, the result of which is reflected in the dividends declared by the few fortunate companies providing these foxes.

In addition to practically ending the practice of selling breeders for the time being at least, the war seriously affected the market for furs. The London market, the center of the world's trade in raw furs, was demoralized; the great German and Russian fur centers were almost entirely cut off; while in America there existed no distributive organization adequate to meet the emergency. This continent both furnished and consumed a large portion of the world's supply of furs, but in many cases the consumer was not reached directly through the mediation of the home dealers. Skilful dyeing and preparing had not been developed to the extent that it had in Europe, and there were no great centers where the world's buyers could congregate at public auction sales, and make their selection of the choicest offerings. The outcome of this situation was the inauguration of auction sales on this continent, in an attempt to wrest the marketing supremacy from London during the present crisis. The pioneer in this movement was the St. Louis fur house of Funstin Bros. & Co. Their first auction was held in October, 1915, and was under the patronage of the United States Government. Meanwhile the New York Fur Sales Corporation was organizing, and held auctions in January, 1916.

III

From this survey some conclusions may be drawn. First, fox farming in its industrial aspects, as distinct from its promotion or speculation, may be adjudged a permanent, legitimate activity. For more than twenty years these animals have been bred in captivity and never was certainty of success more evident than today. Nor can there be any question with regard to continuity of demand for the commodities produced. The demand is based not only on the serviceableness of furs in a cold climate, but on the exceptional beauty of the scarce silver fox fur and its satisfaction of the desire for distinction. One need not hesitate to class as permanent an industry which has demonstrated its success in catering to such basic wants.

In the second place it must be admitted that both the business organization of the industry and an increase in prices were normal developments. The application of the principle of business association to fox farming, both under the partnership and under the corporate forms of organization, was the work of those who wished to undertake ranching coöperatively, being unable or unwilling individually to advance the funds necessary for that purpose. Furthermore, their expectation was to make money solely by breeding and selling foxes, and their valuation of these animals was based on that expectation. Yet even under these conditions prices immediately departed from the pelt basis at which they started in 1910 and about doubled within two years.

But in the fall of 1912 the business methods employed took a turn which has been of far-reaching importance. This was the injection of new aims and methods into

the business by the promoter. This sort of "predatory" activity was not confined to the few outsiders by whom it was first introduced, but spread rapidly until it dominated the entire industry. With nearly every new organization, and with nearly every reorganization, the controlling purpose was to reap large profits from the sale of securities. A new turn was thereby given to the entire industry, which has called down upon it unsparing criticism, and has placed the corporations organized under its régime in a condition from which they will be extracted only with difficulty.

Before the promoter came, enough and more than enough funds were available for every legitimate requirement; and more than enough would have continued to come had the promoter never intervened. His activity was concerned solely with securing investments in fox companies and his aim was to secure a profit by capitalizing earning power and selling securities. There seems to have been in this case no performance of the services for which the economist is wont to justify the profit. Here the promoter was no pioneer in the productive process. He simply followed where others had led. His effort was directed towards creating and marketing speculative securities. It should be said, however, that many who were engaged in these operations were also active ranchers, indeed, some of the pioneers in the industry. So much the more is it to be regretted that their energy should have been diverted into illegitimate channels.

As noted above, prices showed a marked upward trend before the advent of the promoter. The fundamental forces bringing about this result were in part economic and in part psychological, and these forces continued to operate after the appearance of that functionary. His activities simply accentuated a natural tendency.

The economic appeal may be stated thus. Some years must elapse before there would be enough silver foxes to warrant slaughtering for pelts. Until that time arrived, the value of a pair of breeders would depend on the value of the pups produced, as breeders of more pups; and so on for many generations. In technical terminology, the utility of a pair of breeders was derived from the utility of the ultimate consumers' goods — the pelts produced by their progeny many generations hence. This was simply an indefinite projection of the then prevailing conditions, and the conclusion seemed almost self-evident.

It was further maintained that even after prices reached a pelt basis the value of a pair of foxes as breeders of fur bearers would be greater than the value of their coat of fur. This could be easily demonstrated mathematically. A fifty pair ranch, stocked with the best grade of foxes and skilfully managed, could be counted on to produce, on an average, at least one hundred pups yearly. Thus one hundred pelts could be marketed and the property maintained intact. At \$1000 per pelt — believed to be a moderate estimate in view of the 1910 sales — this would yield a return of 20 per cent on a capitalization of \$10,000 per pair. As the \$10,000 basis could easily be reached by retaining a portion of the increase for a few years, it would appear that, even after the period of unprecedented profits was passed, the fox industry would still be classed among the most lucrative fields of investment.

But eventually the price of pelts may decline; where then will the fox companies be? Still, it is said, in as strong a position as ever. By continuing the practice of retaining a portion of each year's increase, the capitalization can be indefinitely reduced and the ability to pay satisfactory dividends permanently maintained.

The plausibility of these arguments and their apparent verification by the prices realized from pelt sales, the upward trend of fur prices, the limited number of silver foxes in captivity, the prices at which breeders were selling and the enormous profits being realized, all tended to make them convincing even to the Island farmers of conservative temperament. Perhaps even more potent was the psychological factor. If the demand for capital by business leaders is frequently based more on pervading sentiment than on careful estimate, what might be expected in a quiet, rural community when neighbors, who a few years before possessed "only mortgaged farms and a few foxes," became numbered among the community's wealthiest citizens; when reports indicated that the profits divided among fox breeders in 1913 exceeded the entire cash investments on which dividends were due that year; when their own Commissioner of Agriculture estimated the value of silver foxes in captivity at the end of 1913 at "twice the value placed on all the cattle, horses, sheep, swine and poultry in the province as shown by the Canadian Census of 1911"? Nor were these mere paper calculations. The value was based on prices then current, and the dividends paid were for the most part real earnings. The record of one company will suffice to illustrate what remarkable profits were realized during this period. Early in 1911 this Company, then a partnership, purchased one pair of foxes for \$4,000. They calculated their entire capital investment at \$11,400. From the sale of the progeny of this one pair of foxes, not counting proceeds from sales of securities, they have met all current expenses, have provided for all ranch enlargements, have paid cash dividends during 1912, 1913, and 1914 aggregating \$133,000, and today (December 27, 1915) they possess

fifty-three silver foxes, all without one dollar additional capital investment. In 1913 alone the shareholders received seven times their initial outlay. Possibly this record cannot be duplicated, but it was approached by a number of companies. Cash dividends from 50 per cent to 500 per cent were not uncommon. The exuberant optimism engendered by such cases was as powerful an influence in determining demand as was a rational calculation of economic values.

Both the economic argument and the psychological appeal were employed by the so-called promoters with telling effect. Through an organized system of advertising and personal solicitation, thousands who otherwise would have been uninformed or uninterested were induced to become active participants in the industry. A large part of the investments in the industry since 1912, with the resulting proportional inflation of the rate of capitalization of corporations, must be attributed to their organized efforts. Had stock selling never become a motive leading to corporate organization, the course of events would probably have been much as it was prior to the fall of 1912. Individuals would have continued to purchase foxes, and new companies would have been formed, probably with an increasing preference for the corporate form of organization. Foxes would have been sold for breeding purposes only, at prices considerably in excess of their fur values. But the increase in demand would have been met by a yearly increase in supply considerable in amount. It may be doubted, therefore, if prices would ever have exceeded those obtained for the 1912 pups. Confirmation of this conclusion is found in the prices at which options were taken in 1913 and in 1914. These options, which ranged from \$10,000 to \$13,000 per pair, are perhaps a fair index of what prices would have been under normal

conditions. Indeed it may well be that the normal supply price would have been less than these option prices, since breeders doubtless anticipated to some degree the increased demand resulting from the speculative campaign. It is a fair inference, that, but for the promoters' efforts, the general range of prices during 1913 and 1914 would have been about \$8,000 to \$10,000 per pair. But those who purchased corporate securities during those boom years paid at the rate of about \$20,000 per pair.

The charge of direct fraud in connection with the organization of the corporations probably applies to a comparatively small number. Apart from the use of false and misleading statements, of which many instances may be found, the most conspicuous cases of fraud are where foxes of inferior quality have been dealt in without revealing this fact to the investors. In a few cases foxes of poor fecundity, and consequently of small value as breeders, have been sold by promoters to the companies they were organizing for a high price. Similar in nature and far more common were the instances where foxes caught in the wild, or the product of cross-breeding, were the property possessed by the corporations. Cross-breeding with red and cross foxes has been practised from the first. Experience has shown that "the silver color is Mendelian recessive to the red" and that "bastard" reds and cross foxes are hybrids. Altho no statistics are available, it is known that a considerable number of silver foxes have been thus produced, which naturally do not command as high a price as silvers which have been ranch bred for several generations. Probably a hundred or more of the wild animals have been imported to Prince Edward Island, purchased for a few hundred dollars each, and capitalized at \$10,000 or more per pair. In these animals the

silver color is not fixed; their progeny are as likely to be red as silver.

What has been said of the promoters — apart from the cases of fraud — is not necessarily a reflection on the character of the individuals engaged. Numbered among these were some of the leading business, professional and public men of the maritime provinces, prominent educators and religious leaders. Apart from the few cases of fraud, these men doubtless were sanguine and sincere, and considered they were engaged in legitimate business enterprise.

In conclusion a word may be said concerning the financial condition of the fox corporations. Judging from the history of their development one might expect to find them on the way to insolvency. They today have a paid-up stock issue of about \$20,000,000. The value of the securities is a derivative of the value of the consumer's goods — fox fur — ultimately yielded by the progeny of the 3600 silver foxes now owned. The present fur value of these foxes is about one-fifth to one-tenth of the paid-up capital, and pelt prices are certain to decline rapidly within the next ten years. Yet the most intelligent and conservative men in the industry believe that in the end unusually satisfactory returns will be received by present investors in those corporations which own standard-bred animals. The amazing thing is that there is a prospect for the fulfilment of this prophecy, providing steps are taken at once to develop an organization requisite to cope with the difficult and complex marketing problem with which they will be confronted in the immediate future. The situation is curious, and the present a critical time in the history of this unique industry.

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